in 1982, just when the general public began to realize that the program was bankrupt and there was a good chance of finally slaughtering this great sacred cow of American politics. Greenspan stepped in as head of a "bipartisan" (i.e. conservative and liberal centrists) Social Security Commission, and "saved" the system from bankruptcy by slapping on higher Social Security taxes.

Alan is a long-time member of the famed Trilateral Commission, the Rockefeller-dominated pinnacle of the financial-political power elite in this country. And as he assumes his post as head of the Fed, he leaves his honored place on the board of directors of J. P. Morgan & Co. and Morgan Guaranty Trust. Yes, the Establishment has good reason to sleep soundly with Greenspan at our monetary helm. And as icing on the cake, they know that Greenspan's "philosophical" Randianism will undoubtedly fool many free market advocates into thinking that a champion of their cause now perches high in the seats of power.

# Fiat Paper Money: Tyranny's Credit Card

*J. Tucker Alford*

In the 20th century, the American dollar has a grim history. It has only about 9% of its 1913 value, because Federal Reserve inflation has caused consumer prices to increase more than eleven-fold.

During the same time, the power of the central bank has increased enormously, as has the presence of the federal government in the economy. Compared to the previous 113 years, the difference is startling. Then, prices generally fell, and prosperity was always on the rise.

The crucial difference between then and now is the quality of the dollar. Today's dollar is created out of thin air by the U.S. government, and there is virtually no restraint on the Federal Reserve's power. But when there is no Fed and money is a real commodity like gold, as during the 19th century, money is more likely to maintain its quality and purchasing power.

Money has not always been in the claws of the government. In fact, as Carl Menger theorized, money very likely came about through the process of the market. Ludwig von Mises went even further and proved that the free market was the only place money could develop. Government coercion never has and never will be able to impose a new institution of money on the economy.

Even so, money has been the victim of brutal attacks by the government. In the Middle Ages, monarchs found that raising taxes was a risky way to raise revenue. It often provoked violent revolution, and kings didn't relish the risk of meeting the executioner's ax. Instead, they found a discreet and underhanded way to extract wealth from the public: debasement of coinage. The king would call in coins for reissue, melt them down, and redistribute them with slightly less gold content, but with the same face value. The "excess" gold would pay off the kings debts, and while the value of the circulating coins would drop, the public outcry was limited.

Paper money first came into use to save the cost of physically transporting bullion. People felt uncomfortable carrying around large quantities of gold. They placed their gold with a goldsmith, and he issued a paper receipt for the deposit, guaranteeing the bearer payment of the gold on demand. The depositor could then use his receipt for the purchase of goods and services. Goldsmiths, soon called banks, began redeeming one another's gold receipts, and paper receipts became accepted as substitutes for money.

The goldsmiths, however, quickly recognized an opportunity to make more profits. They began printing up phony

gold receipts and spending them for their own use. They could even lend them out and charge interest, knowing all depositors wouldn't call for redemption at once. This counterfeiting is today hailed as the basis of our banking system: fractional reserve banking.

Always hanging over the head of the banker-goldsmith, however, was the threat that too many of his depositors would redeem their notes for gold on the same day. His bank, like all modern banks, was inherently broke, but its bankruptcy became apparent only in the event of a bank run. If he couldn't meet his depositors' demands, he would likely be hanged.

Governments, of course, found paper money to their liking. In the New World, paper money was first used in Massachusetts in 1690. After several failed pillaging expeditions into Canada, the colonial government issued irredeemable paper to pay the troops. Back then, no one would accept a simple piece of paper in exchange for real goods, so the government had to promise to redeem in specie at a certain date in the future. It also promised that there would be only one such issue. But the government's promise was as thin as its paper, and many more such issues followed when the government found itself short on money.

The people of colonial America learned to distrust paper money. During the Revolutionary War, Congress issued paper notes called Continentals, which were not backed in gold. They were issued in great quantities, and thus depreciated until they were worth next to nothing. People knew the true cause of the depreciation of the Continental. It wasn't aliens, speculators, slackers, hoarders, or jobbers. It was the government defrauding the people with its printing presses. That's why they wrote gold and silver into the Constitution.

Today, however, the banking and central banking system is so complex that few know why the dollar continues to lose value. The Fed doesn't help much with its confusing array of money stock and liquid asset definitions (Ms). Much better is

Professor Murray N. Rothbard's True Money Supply (TMS). It combines selected components of the different Ms according to Austrian theory, and provides a more accurate accounting of the total outstanding medium of exchange at any given time.

The first step in the establishment of a 100% gold standard money must be to define the U.S. dollar as a weight of gold, with 100% redeemability insured. The dollar was once 1/20 an ounce of gold. It was then devalued to 1/35 an ounce of gold. What would it be now if the dollar were again tied to gold? To approximate the answer we only need to know the government's gold stock, the current money supply, and some simple mathematics.

Using the Federal Reserve's M1 as money (cash, checking accounts, and travelers checks), the dollar would be defined as 1/2837 of an ounce gold. This would value the government's gold stock at $749.3 billion and enable all of M1 to be back by gold at 100%.

Using Rothbard's broader definition of money, TMS, the most recent figures show the dollar would be defined as 1/7340 an ounce of gold. (Just think what the Fed has done: the pre-1934 dollar was 1/20 ounce!) This would allow the government's gold to cover all of TMS. The Federal Reserve's assets could then be sold, and the whole ugly system dismantled.

Though there are few dedicated individuals who remain champions of hard, honest money, the mainstream lambastes the gold standard advocates as archaic, reactionary, anachronistic, loony, and Neanderthal.

The record speaks for itself. Even under an imperfect gold standard, from the end of the American Civil War to World War I, the world experienced unprecedented prosperity and improvement in living standards. Since the "Progressives" destroyed the dollar in 1913, there has been worldwide inflation, the impoverishment of the developing world, the decline

of Western prosperity, and a rise of totalitarianism, both right and left. It is anti-gold statists who are pointing us toward the despotism and barbarism of a new Neanderthal era.

Hard money is free money, and it goes hand in hand with liberty and democracy. Fiat paper money is tyranny's credit card. One can only hope that circumstances need not get worse before they get better. Perhaps someday our nine-cent paper ticket will give way to a genuine, honest gold dollar.

# Back to Fixed Exchange Rates: Another "New Economic Order"

*Murray N. Rothbard*

Hold on to your hats: the world has now embarked on yet another "new economic order"—which means another disaster in the making. Ever since the abandonment of the "classical" gold coin standard in World War I [by the United States in 1933], world authorities have been searching for a way to replace the peaceful world rule of gold by the coordinated, coercive rule of the world's governments.

They have searched for a way to replace the sound money of gold by an internationally coordinated inflation which would provide cheap money, abundant increases in the money supply, increasing government expenditures, and prices that do not rise too wildly or too far out of control, and with no embarrassing monetary crises or excessive declines in any one country's currency. In short, governments have tried to square the circle, or, to have their pleasant inflationary cake without "eating" it by suffering decidedly unpleasant consequences.

The first new economic order of the 20th century was the New Era dominated by Great Britain, in which the world's